

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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R 021245Z OCT 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7468

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 7330

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: UNCERTAINTY PREVAILS REGARDING PROSPECTIVE INCREASE IN
PRICE OF ECUADOR OIL EXPORTS

REF: QUITO 7003

BEGIN SUMMARY: PRESS REPORTS AND OFFICIAL AND PRIVATE CONTACTS
ARE PROVIDING CONFUSED AND CONFLICTING FORECASTS AS TO HOW
MUCH THE GOE WILL INCREASE ECUADOREAN OIL EXPORT PRICE FOLLOW-
ING RECENT OPEC CALL FOR 10 PERCENT RISE. GOE
DECISION-MAKERS ARE AWAITING RETURN OF MINISTER DUENAS FROM
OPEC MEETING BEFORE DECIDING HOW MUCH AND HOW TO RAISE PRICE.
END SUMMARY.

1. IN RECENT DAYS LEADING QUITO DAILIES HAVE BEEN REPORTING
THAT GOE INTENDS TO COMPLY FULLY WITH OPEC DECISION FOR 10
PERCENT OIL PRICE RISE AND THAT GOE IS MAKING STUDY TO DETER-
MINE HOW TO EFFECT SUCH RISE. HOWEVER, LEADING GUAYAQUIL
NEWSPAPER REPORTS TODAY THAT GOE IS POSTPONING DECISION
UNTIL NATURAL RESOURCES MINISTER, JAIME DUENAS, RETURNS
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FROM OPEC MEETING THIS FRIDAY, OCTOBER 3, AND UNTIL

CAREFUL STUDY HAS BEEN MADE AS TO HOW MUCH AS WELL AS HOW PRICE SHOULD BE RAISED.

2. EMBOFF'S DISCUSSIONS WITH CONTACTS IN EBE AND IN U.S. OIL COMPANIES HERE LEADS US TO CONCLUSION THAT LATTER ACCOUNT IS CORRECT, I.E., AS OF TODAY GOE HAS NOT DECIDED HOW MUCH TO INCREASE OIL PRICE NOR PRECISELY WHICH COMPONENTS OF OIL PRICE (TAXES, ROYALTIES, OTHER CHARGES) SHOULD BE INCREASED. SUCH WILL NO DOUBT DEPEND ON WHAT DUENAS HAS TO SAY ON HIS RETURN.

3. NOTABLY PESSIMISTIC ANALYSIS AND FORECAST WAS PROVIDED TODAY TO EMBOFFS BY LOCAL TEXACO OFFICIAL. AS HE SEES SITUATION, DUENAS' PUBLIC STATEMENTS REPORTED IN REFTEL (TO THE EFFECT THAT GOE DOES NOT CONSIDER ITSELF BOUND BY OPEC DECISIONS AND WILL DO WHATEVER IS BEST FOR ECUADOR) HAVE ONLY SERVED TO CRYSTALLIZE OPPOSITION WITHIN ARMED FORCES AND WITHIN CIVILIAN LEFTIST ELEMENTS AGAINST FURTHER CONCESSIONS TO OIL COMPANIES. HE BELIEVES THAT THESE FORCES HAVE BEGUN PRESSURING GOE DECISION-MAKERS, AND THAT LATTER INCREASINGLY FEELS NEED TO YIELD TO SUCH PRESSURES FOR POLITICAL REASONS. HE SAID THAT A FURTHER PRICE RISE OF 10 PERCENT OR ANYTHING CLOSE TO THAT RATE WOULD BE "SUICIDAL" FOR ECUADOR, SINCE SUCH RISE WOULD KEEP ECUADOREAN OIL IN ITS PRESENT POOR COMPETITIVE POSITION IN WORLD MARKETS AND WOULD STRONGLY DISCOURAGE OIL COMPANIES FROM MAKING ANY ADDITIONAL INVESTMENTS HERE TO EXPAND PRODUCTION AND EXPORTS. WE DO NOT FULLY SHARE THIS PESSIMISM, AS EXPLAINED BELOW.

4. WE SEE FEW REASONS AS YET FOR DOUBTING THAT DUENAS, WITH FULL SUPPORT FROM PRESIDENT RODRIGUEZ LARA, INTENDS TO FOLLOW UP HIS STATEMENTS REPORTED IN REFTEL BY EFFECTING AN OIL PRICE INCREASE APPRECIABLY LOWER THAN 10 PERCENT. OUR OWN ANALYSIS OF CURRENT WORLD OIL PRICE SITUATION INDICATES THAT AN ECUADOREAN PRICE RISE ON ORDER OF THREE OR FOUR PERCENT WOULD PROVIDE GOOD COMPETITIVE EDGE FOR ECUADOREAN OIL IN WORLD MARKETS AND A HEALTHY INCENTIVE FOR OIL COMPANIES TO STEP UP INVESTMENTS HERE; AND IN LIGHT OF

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FACT THAT SEVERAL OTHER OPEC COUNTRIES EVIDENTLY ARE NOT GOING ALONG FULLY WITH THE OPEC RECOMMENDATION FOR A 10 PERCENT PRICE RISE, WE BELIEVE ECUADOR COULD ALSO EFFECT A WELL-UNDER-10-PERCENT RISE WITHOUT SERIOUSLY HURTING ITS STANDING WITHIN OPEC. EVEN IF PRESSURES ARE IN FACT INTENSIFYING FROM MORE RADICAL ELEMENTS IN ARMED FORCES AND COUNTRY AS WHOLE, FACT SEEMS TO BE THAT PROBABLY MUCH STRONGER OPINION HAS SOLIDIFIED WITHIN ARMED FORCES AND

AMONG POPULACE THAT ECUADOR'S RECENT ECONOMIC DIFFI-
CULTIES STEM LARGELY FROM HARSH TREATMENT OF OIL
COMPANIES AND THAT TREATMENT MUST BE AMELIORATED
REALISTICALLY.
BREWSTER

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